

DETROIT/WAYNE COUNTY  
PORT AUTHORITY

**FINANCIAL STATEMENTS**

**September 30, 2005 and 2004**

DETROIT/WAYNE COUNTY PORT AUTHORITY

**CONTENTS**

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INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	2
FINANCIAL STATEMENTS:	
Statements of Net Assets	7
Statements of Activities	8
Balance Sheets - Governmental Funds	9
Reconciliations of Governmental Funds Balance Sheets to Statements of Net Assets	10
Statements of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds	11
Reconciliations of Governmental Funds Statements of Revenue, Expenditures, and Changes in Fund Balances to Statements of Activities	12
NOTES TO FINANCIAL STATEMENTS	13
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Revenue and Expenditures - Budget and Actual - Operating Fund (Unaudited)	24
Note to Schedule of Revenue and Expenditures - Budget and Actual - Operating Fund (Unaudited)	25

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## INDEPENDENT AUDITORS' REPORT

December 23, 2005

To the Board of Directors  
Detroit/Wayne County Port Authority  
Detroit, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Detroit/Wayne County Port Authority (the "Authority") as of, and for the years ended, September 30, 2005 and 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2005 and 2004, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and schedule of revenue and expenditures - budget and actual (operating fund) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

  
CERTIFIED PUBLIC ACCOUNTANTS

An Independent Member of the BDO Seidman LLP Alliance

DETROIT/WAYNE COUNTY PORT AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**September 30, 2005 and 2004**

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This section of the annual report of the Detroit/Wayne County Port Authority (the "Authority") presents management's discussion and analysis of the Authority's financial performance during the fiscal years that ended on September 30, 2005 and 2004. Please read it in conjunction with the Authority's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

The fiscal year ended September 30, 2005 was a period of continuous operational and financial improvements. During the year, revenue decreased by 42 percent, and program expenses increased by 25.6 percent. As a result, net assets increased by approximately \$2,000.

Key successes for the Authority this past year include receipt of the following:

1. A \$450,000 federal grant from the Transportation Safety Administration to provide funding for the purchase of port security equipment.
2. A \$400,000 Environmental Protection Agency brownfield grant for environmental site investigations within the port of Detroit district.
3. The acquisition and restart of the port of Detroit terminal.
4. Groundbreaking for the new public dock and terminal.
5. Structuring the financing of a \$43 million mixed-use facility for General Motors by issuing bonds.
6. A \$30,000 coastal zone management grant from the Michigan Department of Environmental Quality for the planning of a new Great Lakes environmental monitoring and interpretive center.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report contains two types of financial statements. The statements of net assets and statements of activities (which are presented on pages 7 and 8) are considered government-wide financial statements. The balance sheets and statements of revenue, expenditures, and fund balances for governmental funds (which are presented on pages 9 and 11) are considered fund financial statements. A further discussion of each type of statement follows.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**

**September 30, 2005 and 2004**

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**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Government-Wide Financial Statements**

The government-wide financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies and non-profit organizations. The statements of net assets include all of the Authority's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statements of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the Authority's net assets and how they have changed. Net assets represent the difference between the Authority's assets and liabilities, and they represent one way to measure the Authority's financial health, or position. Over time, increases or decreases in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the Authority's most significant funds, not the Authority as a whole. Funds are accounting devices that the Authority uses to keep track of specific sources of funding and spending for particular purposes.

Most of the Authority's activities are included in governmental funds, which focus on how cash, and other financial assets that can be readily converted to cash, flow in and out, and show the balances left at the end of the year that are available for spending. As such, the fund financial statements provide a detailed short-term view that shows whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided on pages 10 and 12 that explains the relationship between the fund financial statements and the government-wide financial statements.

The notes to the financial statements, which begin on page 13, explain some of the information in the financial statements and provide more detailed data. A comparison of the Authority's operating fund revenue and expenditures to its budget is provided on page 24.

DETROIT/WAYNE COUNTY PORT AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**

**September 30, 2005 and 2004**

**FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE**

Table 1 reflects the condensed statements of net assets as of September 30, 2005, 2004, and 2003:

**Table 1**  
**Statements of Net Assets**  
**September 30, 2005, 2004, and 2003**  
*(in thousands of dollars)*

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Assets:</b>			
Cash	\$ 917.0	\$ 636.9	\$ 834.5
Cash reserve for bond issuance	-0-	-0-	500.0
Accounts receivable	234.6	204.3	236.9
Capital assets	4,819.0	2,728.1	40.2
Other assets	187.9	20.9	337.5
<b>Total Assets</b>	<u><b>6,158.5</b></u>	<u><b>3,590.2</b></u>	<u><b>1,949.1</b></u>
<b>Liabilities:</b>			
Long-term liabilities	2,125.1	-0-	500.0
Other liabilities	678.6	237.3	328.6
<b>Total Liabilities</b>	<u><b>2,803.7</b></u>	<u><b>237.3</b></u>	<u><b>828.6</b></u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	2,693.9	2,728.1	40.2
Unrestricted	660.9	624.8	1,080.3
<b>Total Net Assets</b>	<u><b>\$ 3,354.8</b></u>	<u><b>\$ 3,352.9</b></u>	<u><b>\$ 1,120.5</b></u>

Accounts receivable balances are reviewed for collectibility and are written off as necessary. During the year ended September 30, 2005, no allowance was considered necessary. Capital assets include the acquisition of the 35-acre port of Detroit marine cargo terminal.

Long-term liabilities increased due to the note payable associated with the acquisition of the port of Detroit marine terminal.

DETROIT/WAYNE COUNTY PORT AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**

September 30, 2005 and 2004

**FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)**

Table 2 reflects the condensed statements of activities for the years ended September 30, 2005, 2004, and 2003:

**Table 2**  
**Statements of Activities**  
**For the Years Ended September 30, 2005, 2004, and 2003**  
*(in thousands of dollars)*

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Revenue:</b>			
Program revenue:			
Contracts and grants	\$ 1,698.3	\$ 3,878.9	\$ 1,473.0
Other program revenue	400.0	-0-	-0-
General revenue:			
Administrative revenue	184.9	176.9	161.1
Other revenue	123.5	91.7	89.6
<b>Total Revenue</b>	<b>2,406.7</b>	<b>4,147.5</b>	<b>1,723.7</b>
<b>Expenses:</b>			
Import and export promotional programs	2,404.8	1,915.1	1,224.6
<b>Net Increase in Net Assets</b>	<b>1.9</b>	<b>2,232.4</b>	<b>499.1</b>
Net Assets, Beginning of Year	3,352.9	1,120.5	621.4
<b>Net Assets, End of Year</b>	<b>\$ 3,354.8</b>	<b>\$ 3,352.9</b>	<b>\$ 1,120.5</b>

Grant revenue decreased significantly due to the CMI grant for the purchase of public dock land in 2004. Other program revenue included the recovery of bond issuance costs from a previous year.

The Authority received a \$3 million reimbursement grant from the State of Michigan for the purpose of purchasing property and infrastructure improvements on the Detroit River along the new Riverwalk Conservancy. This grant will give the Authority an additional ongoing revenue stream from marine and port-related activities. The Authority will use future proceeds from its Tea-21 grant and future State of Michigan matches to construct a new public dock and terminal facility to further waterfront development and tourism. These projects are planned for completion in late 2007 and will further increase the Authority's waterfront presence.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**

**September 30, 2005 and 2004**

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**ECONOMIC FACTORS**

The Board of Directors and management have worked diligently to improve the financial position of the Authority and to implement plans and projects that will reduce the dependency for tax-based funding to meet administrative expenses. The Port of Detroit project to acquire the Detroit Marine Terminals property at the foot of Clark Street and Jefferson in Detroit and enter into an operating agreement with a new company was completed in July 2005. This milestone to implement those plans and projects will substantially increase revenue to the Authority, promote economic development in the port district, and greatly improve commerce within the region.

The site for the new Public Dock and Terminal Facility was chosen to be a part of the new Riverwalk Conservancy, adjacent to General Motors' World Headquarters at the foot of Bates Street. Possession of the project parcel was taken in August 2004, and construction began in November 2005. The project is scheduled for completion in early 2007 so it will be available for the 2007 Great Lakes cruise ship season. This project will greatly promote tourism in southeast Michigan and have a very significant economic impact on the region. The Authority plans on moving its offices into the new Terminal Facility and reducing administrative expenses by terminating its current office lease.

The Authority has prioritized waterfront economic development and is using its legislatively enabled powers to aggressively seek grant monies from federal and state agencies to fund all categories of projects, promoting commerce, tourism, and environmental stewardship. This coming year, the Authority will receive and spend over \$10 million in grant monies that have been awarded for projects along the Detroit waterfront.

Presently, all of the projects that will have a significant economic impact for the Authority are in the implementation stages, and the full benefits will not be fully realized in the immediate future. The dependency of the Authority for continued tax-based funding for the administrative function is critical to the ongoing success of the Authority. Any significant reductions in the funding level of the Authority will result in a reduction of program services and the demonstrated benefits those projects and services provide.

**FINANCIAL CONTACT**

This financial report is designed to present its users with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Chief Financial Officer's office of the Detroit/Wayne County Port Authority at 8109 East Jefferson, Detroit, Michigan 48214.



DETROIT/WAYNE COUNTY PORT AUTHORITY

**STATEMENTS OF NET ASSETS**

**September 30, 2005 and 2004**

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets:</b>		
Cash	\$ 917,034	\$ 636,926
Accounts receivable (no allowance considered necessary)	234,640	204,324
Prepaid expenses	13,999	7,816
Deposits	173,913	13,000
Capital assets (Note C):		
Nondepreciable capital assets	3,976,940	2,700,000
Depreciable capital assets, net	842,022	28,086
<b>Total Assets</b>	<b>6,158,548</b>	<b>3,590,152</b>
<b>Liabilities:</b>		
Accounts payable	24,295	13,107
Accrued expenses	554,373	224,104
Escrow deposit payable	100,000	-0-
Long-term liabilities (Note D):		
Due or expected to be paid in more than one year	2,125,066	-0-
<b>Total Liabilities</b>	<b>2,803,734</b>	<b>237,211</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	2,693,896	2,728,086
Unrestricted	660,918	624,855
<b>Total Net Assets</b>	<b>\$ 3,354,814</b>	<b>\$ 3,352,941</b>

See notes to financial statements.

## DETROIT/WAYNE COUNTY PORT AUTHORITY

**STATEMENTS OF ACTIVITIES**

For the Years Ended September 30, 2005 and 2004

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
<b>Expenses:</b>		
Import and export promotional programs:		
Salaries, wages, and employee benefits	\$ 792,361	\$ 803,446
Contractual and professional services	261,841	440,220
Facility operations and maintenance	180,198	172,817
Office expenses	84,217	84,403
Site reclamation and redevelopment	798,167	158,169
Travel and automotive expenses	90,466	85,503
Conferences, dues, and subscriptions	81,632	41,592
Marketing and promotion	64,621	116,231
Interest expense	34,701	-0-
Depreciation (Note C)	16,636	12,740
<b>Total Program Expenses</b>	<b>2,404,840</b>	<b>1,915,121</b>
<b>Program Revenue:</b>		
Contracts and grants (Note G)	1,698,278	3,878,904
Reimbursement of bond issuance costs (Note H)	400,000	-0-
<b>Total Program Revenue</b>	<b>2,098,278</b>	<b>3,878,904</b>
<b>Net Program Revenue (Expense)</b>	<b>(306,562)</b>	<b>1,963,783</b>
<b>General Revenue:</b>		
Administrative revenue (Note B)	184,905	176,856
Rental income	78,210	83,635
Interest income	10,320	8,196
Miscellaneous income	35,000	-0-
<b>Total General Revenue</b>	<b>308,435</b>	<b>268,687</b>
<b>Net Increase in Net Assets</b>	<b>1,873</b>	<b>2,232,470</b>
Net Assets, Beginning of Year	3,352,941	1,120,471
<b>Net Assets, End of Year</b>	<b>\$ 3,354,814</b>	<b>\$ 3,352,941</b>

See notes to financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

**BALANCE SHEETS - GOVERNMENTAL FUNDS**

September 30, 2005 and 2004

	<b>Operating Fund</b>	
	<b>2005</b>	<b>2004</b>
<b>ASSETS</b>		
Cash	\$ 917,034	\$ 636,926
Accounts receivable (no allowance considered necessary)	234,640	204,324
Prepaid expenditures	13,999	7,816
Deposits	173,913	13,000
<b>Total Assets</b>	<b>\$ 1,339,586</b>	<b>\$ 862,066</b>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 24,295	\$ 13,107
Accrued expenses	503,194	197,971
Escrow deposit payable	100,000	-0-
<b>Total Liabilities</b>	<b>627,489</b>	<b>211,078</b>
<b>Fund Balance:</b>		
Unreserved	712,097	650,988
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,339,586</b>	<b>\$ 862,066</b>

See notes to financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

**RECONCILIATIONS OF GOVERNMENTAL FUNDS BALANCE SHEETS TO  
STATEMENTS OF NET ASSETS**

**September 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Total Fund Balances, Governmental Funds	\$ 712,097	\$ 650,988
Amounts reported for governmental activities in the statements of net assets differ from amounts reported in the governmental funds balance sheets due to the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of the following:		
Nondepreciable capital assets	3,976,940	2,700,000
Depreciable capital assets:		
Cost	1,047,727	217,155
Less: Accumulated depreciation	(205,705)	(189,069)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of the following:		
Note payable	(2,125,066)	-0-
Accrued expenses	(51,179)	(26,133)
<b>Total Net Assets, Governmental Activities</b>	<b><u>\$ 3,354,814</u></b>	<b><u>\$ 3,352,941</u></b>

See notes to financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

**STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Years Ended September 30, 2005 and 2004

	2005		2004		
	Operating Fund	Total All Funds	Operating Fund	Debt Service Fund	Total All Funds
<b>Revenue:</b>					
Contracts and grants (Note G)	\$ 1,698,278	\$ 1,698,278	\$ 3,878,904	\$ -0-	\$ 3,878,904
Reimbursement of bond issuance costs (Note H)	400,000	400,000			-0-
Administrative revenue (Note B)	184,905	184,905	176,856		176,856
Rental income	78,210	78,210	83,635		83,635
Interest income	10,320	10,320	8,196		8,196
Miscellaneous income	35,000	35,000			-0-
<b>Total Revenue</b>	<b>2,406,713</b>	<b>2,406,713</b>	<b>4,147,591</b>	<b>-0-</b>	<b>4,147,591</b>
<b>Expenditures:</b>					
Current:					
Salaries, wages, and employee benefits	767,315	767,315	777,313		777,313
Contractual and professional services	261,841	261,841	125,317		125,317
Facility operations and maintenance	180,198	180,198	172,817		172,817
Office expenses	84,217	84,217	84,403		84,403
Site reclamation and redevelopment	798,167	798,167	158,169		158,169
Travel and automotive expenses	90,466	90,466	85,503		85,503
Conferences, dues, and subscriptions	81,632	81,632	41,592		41,592
Marketing and promotion	64,621	64,621	116,231		116,231
Interest expense	34,701	34,701			-0-
Capital outlay (Note C)	2,107,512	2,107,512	2,700,607		2,700,607
Debt service:					
Repayment of bond escrow (Note F)		-0-		500,000	500,000
<b>Total Expenditures</b>	<b>4,470,670</b>	<b>4,470,670</b>	<b>4,261,952</b>	<b>500,000</b>	<b>4,761,952</b>
<b>Excess (Deficiency) of Revenue over Expenditures</b>	<b>(2,063,957)</b>	<b>(2,063,957)</b>	<b>(114,361)</b>	<b>(500,000)</b>	<b>(614,361)</b>
<b>Other Financing Sources:</b>					
Issuance of note (Note D)	2,125,066	2,125,066			-0-
<b>Net Increase (Decrease) in Fund Balances</b>	<b>61,109</b>	<b>61,109</b>	<b>(114,361)</b>	<b>(500,000)</b>	<b>(614,361)</b>
Fund Balances, Beginning of Year	650,988	650,988	765,349	500,000	1,265,349
<b>Fund Balances, End of Year</b>	<b>\$ 712,097</b>	<b>\$ 712,097</b>	<b>\$ 650,988</b>	<b>\$ -0-</b>	<b>\$ 650,988</b>

See notes to financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

**RECONCILIATIONS OF GOVERNMENTAL FUNDS STATEMENTS OF REVENUE,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO STATEMENTS OF  
ACTIVITIES**

**For the Years Ended September 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Net Increase (Decrease) in Fund Balances, Governmental Funds	\$ 61,109	\$ (614,361)
<p>Amounts reported for governmental activities in the statements of activities differ from amounts reported in the governmental funds statements of revenue, expenditures, and changes in fund balances due to the following:</p>		
<p>Capital outlays are reported as expenditures in governmental funds. However, in the statements of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. During the years presented, these amounts are as follows:</p>		
Capital outlay	2,107,512	2,700,607
Less: Depreciation expense	(16,636)	(12,740)
<p>Costs incurred in issuing long-term debt are reported as expenditures, and the write-off of such costs is reported as a reduction of expenditures, in governmental funds. However, in the statements of activities, such costs and write-offs increase and decrease, respectively, long-term assets in the statements of net assets. During the years presented, these amounts are as follows:</p>		
Write-off of bond issuance costs for bonds not issued	-0-	(314,903)
<p>Certain expenses reported in the statements of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. During the years presented, these amounts are as follows:</p>		
Salaries and wages	(25,046)	(26,133)
<p>Proceeds issued on long-term debt are reported as a financing source, and repayment on long-term debt is reported as an expenditure, in governmental funds, but the proceeds and repayment increase and decrease, respectively, long-term liabilities in the statements of net assets. During the years presented, these amounts are as follows:</p>		
Issuance of note	(2,125,066)	-0-
Repayment of bond escrow	-0-	500,000
<b>Net Increase in Net Assets, Governmental Activities</b>	<b><u>\$ 1,873</u></b>	<b><u>\$ 2,232,470</u></b>

See notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2005 and 2004

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities and Purpose**

The Detroit/Wayne County Port Authority (the "Authority") was created by the Port Authority Act of 1978. The legislation enables the Authority to enter into contracts for the acquisition, improvement, enlargement, or extension of port facilities. The mission of the Authority is to plan, develop, and foster economic and recreational growth, through environmental stewardship, in promoting Detroit and southeast Michigan as an import and export freight transportation and distribution hub for the United States, Canada, and the world marketplace.

For financial reporting purposes, the Authority is not a component unit of any other governmental entity. There are no fiduciary funds or component units included in the accompanying financial statements.

**Basis of Presentation**

The financial statements of the Authority consist of government-wide financial statements, which include the statements of net assets and statements of activities, and fund financial statements, which include the balance sheets and statements of revenue, expenditures, and fund balances for governmental funds.

**Government-Wide Financial Statements**

The government-wide financial statements report information about all of the Authority's assets, liabilities, net assets, revenue, and expenses, similar to the financial statements of non-governmental enterprises.

**Fund Financial Statements**

For purposes of the fund financial statements, the accounts of the Authority are organized on the basis of governmental funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenue, and expenditures. The various funds are summarized by type in the fund financial statements. The following funds are used by the Authority:

**Operating Fund**

The operating fund is the general operating fund of the Authority. It is used to account for all financial resources other than those required to be accounted for in another fund.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

September 30, 2005 and 2004

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (continued)**

**Fund Financial Statements (continued)**

**Debt Service Fund**

The debt service fund accounts for the servicing of general long-term obligations not being financed by any other funds.

**Basis of Accounting**

**Government-Wide Financial Statements**

The government-wide financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus. Accordingly, revenue is recorded when earned, and expenses are recorded when incurred. Contracts and grants provided to support program activities are classified as program revenue. Administrative, rental, investment, and other income not directly associated with program services provided are classified as general revenue.

**Fund Financial Statements**

The fund financial statements are prepared on the modified accrual basis of accounting using the flow of current financial resources as a measurement focus. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual, which is when it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred, if measurable. In applying the susceptible-to-accrual concept to intergovernmental revenue, the legal and contractual requirements of the numerous individual programs are used as guidance. Monies virtually unrestricted as to purpose of expenditure and revocable only for failure to comply with prescribed compliance requirements are reflected as revenue at the time of receipt or earlier if the susceptible-to-accrual criteria are met.

**Tax-Exempt Status**

No provision has been established for income taxes since the Authority is exempt from income taxes under Internal Revenue Code section 501(c)(4).



**NOTES TO FINANCIAL STATEMENTS (CONTINUED)****September 30, 2005 and 2004****NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Cash Deposits**

State of Michigan statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts be made with banks doing business and having a place of business in the State of Michigan that are also members of a federal or national insurance corporation.

Custodial credit risk is the risk that, in event of a bank failure, the Authority's deposits may not be returned to the Authority. The Authority does not have a deposit policy for custodial credit risk.

As of September 30, 2005 and 2004, the Authority's carrying amount of deposits and bank balances, and the bank balances that are not covered by federal depository insurance, are as follows:

	<u>2005</u>	<u>2004</u>
Carrying amount of deposits	\$ 917,034	\$ 636,926
Total bank balances	<u>\$ 1,137,500</u>	<u>\$ 666,730</u>
Uninsured and uncollateralized bank balances	<u>\$ 937,500</u>	<u>\$ 265,892</u>

**Capital Assets**

Capital assets are recorded at historical cost. The Authority capitalizes all expenditures for furniture, fixtures, and equipment in excess of \$500. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Expenditures for maintenance and repairs are charged to expense. Renewals or betterment which extend the life or increase the value of the properties are capitalized and depreciated over the remaining useful lives of the related assets.

**Compensated Absences**

Vacation time is accrued in the government-wide financial statements as earned. Employees are allowed to carry over a maximum of 40 days. Upon termination, employees are entitled to their unused accumulated vacation time.

Sick time is accrued in the government-wide financial statements as earned. Employees are allowed to carry over all sick time. Upon termination, employees forfeit their unused accumulated sick time.

In the fund financial statements, only the matured liability for compensated absences is recorded. The total liability for vacation is reported in the government-wide financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2005 and 2004**

**NOTE B - ADMINISTRATIVE REVENUE**

The Authority provides administrative services for Greater Detroit Foreign Trade Zone, Inc. ("GDFTZ"). Total fees were \$184,905 and \$176,856 for the years ended September 30, 2005 and 2004, respectively. The balance receivable from GDFTZ as of September 30, 2005 and 2004 was \$15,409 and \$14,738, respectively.

**NOTE C - CAPITAL ASSETS**

Nondepreciable capital asset activity for the years ended September 30, 2005 and 2004 is as follows:

	<u>Land</u>
Balance, October 1, 2003	\$ -0-
Acquisitions	<u>2,700,000</u>
<b>Balance, September 30, 2004</b>	<b>2,700,000</b>
Acquisitions	<u>1,276,940</u>
<b>Balance, September 30, 2005</b>	<b><u>\$ 3,976,940</u></b>

Depreciable capital asset activity for the years ended September 30, 2005 and 2004 is as follows:

	<u>Building</u>	<u>Office Equipment</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
<b>Cost:</b>				
Balance, October 1, 2003	\$ -0-	\$ 130,843	\$ 85,705	\$ 216,548
Acquisitions	<u>                    </u>	<u>                    </u>	<u>607</u>	<u>607</u>
<b>Balance, September 30, 2004</b>	<b>-0-</b>	<b>130,843</b>	<b>86,312</b>	<b>217,155</b>
Acquisitions	<u>826,060</u>	<u>4,512</u>	<u>                    </u>	<u>830,572</u>
<b>Balance, September 30, 2005</b>	<b><u>\$ 826,060</u></b>	<b><u>\$ 135,355</u></b>	<b><u>\$ 86,312</u></b>	<b><u>\$ 1,047,727</u></b>

## DETROIT/WAYNE COUNTY PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2005 and 2004

NOTE C - CAPITAL ASSETS (CONTINUED)

	<u>Building</u>	<u>Office Equipment</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
<b>Accumulated Depreciation:</b>				
Balance, October 1, 2003	\$ -0-	\$ 102,221	\$ 74,108	\$ 176,329
Depreciation expense		9,028	3,712	12,740
<b>Balance, September 30, 2004</b>	<b>-0-</b>	<b>111,249</b>	<b>77,820</b>	<b>189,069</b>
Depreciation expense	4,413	8,481	3,742	16,636
<b>Balance, September 30, 2005</b>	<b>\$ 4,413</b>	<b>\$ 119,730</b>	<b>\$ 81,562</b>	<b>\$ 205,705</b>
<b>Net Depreciable Capital Assets:</b>				
Balance, September 30, 2004	\$ -0-	\$ 19,594	\$ 8,492	\$ 28,086
Balance, September 30, 2005	\$ 821,647	\$ 15,625	\$ 4,750	\$ 842,022

NOTE D - LONG-TERM LIABILITIES

During the year ended September 30, 2005, the Authority entered into a Master Concession Agreement with the Ambassador Port Company ("Ambassador") which gives Ambassador the right to operate the Authority's port facilities. In connection with the Master Concession Agreement, the Authority borrowed \$2,103,000 from Ambassador. The related note agreement includes a provision for the possible advance of future amounts by Ambassador for the purpose of paying certain operating and expansion costs of the facilities associated with the Master Concession Agreement.

The note bears interest at a rate defined in the Master Concession Agreement as 300 basis points over the yield to maturity of five-year United States Treasury notes as published in a respected financial journal. The interest rate can never be less than six percent. The rate in effect as of September 30, 2005 was 7.1 percent.

DETROIT/WAYNE COUNTY PORT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2005 and 2004**

**NOTE D - LONG-TERM LIABILITIES (CONTINUED)**

Repayment of the note is based on revenue received by the Authority under relevant sections of the Master Concession Agreement. As of September 30, 2005, the note and accrued interest totaling \$2,125,066 are expected to be repaid after September 30, 2006 and, accordingly, have been classified as a long-term liability as of September 30, 2005.

Long-term liability activity for the year ended September 30, 2005 is as follows:

Balance, beginning of year	\$ -0-
Additions	<u>2,125,066</u>
<b>Balance, End of Year</b>	<b><u>\$ 2,125,066</u></b>

Maturities of long-term liabilities by year cannot be determined as of September 30, 2005.

**NOTE E - LEASES**

The Authority leases a building for office space under an operating lease. The lease has a five-year renewal option exercisable through August 2006, with the ability to terminate the lease at any time with six months' notice.

The Authority leases office equipment under an operating lease. The term of this lease expires in December 2005.

The following is a schedule by years of future minimum lease payments under operating leases as of September 30, 2005:

<b><u>For the Year Ending</u></b> <b><u>September 30</u></b>	<b><u>Building</u></b>	<b><u>Equipment</u></b>	<b><u>Total</u></b>
2006	<u>\$ 60,000</u>	<u>\$ 1,194</u>	<u>\$ 61,194</u>

Rental expense under operating leases for the years ended September 30, 2005 and 2004 was \$115,000 and \$109,684, respectively.

**NOTE F - DEBT SERVICE RESERVE**

During the year ended September 30, 2003, the Authority was in the process of issuing revenue bonds, as discussed in Note H. In conjunction with the bond issuance, the Authority was required by the underwriter to establish a \$500,000 escrow account to hold the funds in case of default.

DETROIT/WAYNE COUNTY PORT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2005 and 2004**

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**NOTE F - DEBT SERVICE RESERVE (CONTINUED)**

On September 12, 2003, the Authority entered into a general loan contract with the Michigan Department of Transportation ("MDOT") to fund the account. MDOT loaned \$500,000 to the Authority, which was to be repaid after the last bond payment was made. Interest earned on the escrow account was to be remitted to MDOT. During the year ended September 30, 2004, the Authority decided not to issue any bonds. The Authority repaid the loan to MDOT.

**NOTE G - CONTRACTS AND GRANTS**

The Authority has entered into contracts with the following governmental entities from which the Authority receives operating funds:

**State of Michigan**

The Authority's contract with MDOT is renewed annually unless a notice to terminate is requested by either party. The amount of funding for future years under the contract will be negotiated annually.

**County of Wayne**

The Authority receives a line-item appropriation in the budget of the County of Wayne. The amount of funding for future years under the appropriation is negotiated annually.

**City of Detroit**

The Authority's contract with the City of Detroit is renewed annually unless a notice to terminate is requested by either party. The amount of funding for future years under the contract will be negotiated annually.

The Authority has also obtained the following grants:

**Federal Highway Grant**

The Authority received a reimbursement grant from MDOT to perform environmental studies on specific properties. For the years ended September 30, 2005 and 2004, the Authority incurred \$45,048 and \$16,250, respectively, of reimbursable costs, which was recorded as grant revenue.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2005 and 2004**

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**NOTE G - CONTRACTS AND GRANTS (CONTINUED)**

**Waterfront Redevelopment Grant**

On July 3, 2003, the Authority received a \$3 million reimbursement grant from the Michigan Department of Environmental Quality ("MDEQ") for the purpose of purchasing property to enhance public access to the riverfront through improvements to the infrastructure. The grant agreement expired on August 4, 2004. For the years ended September 30, 2005 and 2004, the Authority incurred \$91,164 and \$2,814,780 of reimbursable costs, respectively.

**Port Security Grant**

The Authority received a \$450,000 grant from the Transportation Safety Administration to provide funding for the purchase of port security equipment. For the year ended September 30, 2005, the Authority incurred \$439,194 of reimbursable costs, which was recorded as grant revenue. Total expenditures of the fund may not exceed 30 percent of the funded amount.

**Brownfield Grant**

The Authority received a \$400,000 Brownfield grant from the Environmental Protection Agency for environmental site investigations within the port of Detroit district. For the year ended September 30, 2005, the Authority incurred \$31,600 of reimbursable costs, which was recorded as grant revenue. The authority provides status reports on a quarterly basis, and the grant agreement expires on September 1, 2006.

**Site Reclamation Program**

The Authority received a \$150,000 reimbursement grant from the MDEQ to perform environmental surveys on specific properties. For the year ended September 30, 2003, the Authority incurred \$150,000 of reimbursable costs, which was recorded as grant revenue. During the year ended September 30, 2004, the MDEQ reduced the amount of reimbursement to \$132,874. The Authority recorded an adjustment of \$17,126 to revenue for the year ended September 30, 2004 to reflect this reduction.

**Ambassador Port Revenue**

The Authority entered into a Master Concession Agreement with Ambassador. The Authority's main purpose for entering into this agreement is to cause a dormant port facility to resume operations. The parties agreed that the Authority is to be compensated for out-of-pocket and administrative costs that the Authority incurs.

DETROIT/WAYNE COUNTY PORT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

September 30, 2005 and 2004

**NOTE G - CONTRACTS AND GRANTS (CONTINUED)**

**Ambassador Port Revenue (continued)**

According to the Master Concession Agreement, Ambassador shall pay the Authority 2.5 percent of gross receipts received in each quarter, less all outstanding interest that accrued during that quarter, any default interest due, and any interest accrued during prior quarters that was added to the principal amount of the promissory note. During the year ended September 30, 2005, the Authority was reimbursed \$26,272 for costs incurred, which was recorded as contract revenue.

Total contract and grant revenue is summarized as follows:

	<b><u>2005</u></b>	<b><u>2004</u></b>
State of Michigan	\$ 500,000	\$ 500,000
County of Wayne	315,000	315,000
City of Detroit	250,000	250,000
Federal highway grant	45,048	16,250
Waterfront redevelopment grant	91,164	2,814,780
Port security grant	439,194	-0-
Brownfield grant	31,600	-0-
Site reclamation program	-0-	(17,126)
Ambassador port revenue	26,272	-0-
	<b><u>\$ 1,698,278</u></b>	<b><u>\$ 3,878,904</u></b>

**NOTE H - BOND ISSUANCE COSTS**

The Authority negotiated with its underwriter to issue \$5,950,000 in variable rate demand revenue bonds to finance the acquisition of leasehold interests of a port terminal facility and to defease existing bonds issued to finance a port facility. The Authority intended to use proceeds from a management and operating agreement with a cargo terminal facility company to make the bond payments. During the year ended September 30, 2004, the Authority decided not to issue any bonds. The bond issuance costs capitalized during the year ended September 30, 2003 were written off during the year ended September 30, 2004, as the Authority's management did not expect these costs to be utilized or reimbursed. These costs were reimbursed to the Authority during the year ended September 30, 2005 and have been included in that year's revenue in the accompanying financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2005 and 2004**

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**NOTE I - RISK MANAGEMENT**

Given the normal activities of the Authority and the relatively low rate of claims and lawsuits experienced in the Authority's past history, the risk involved in the Authority's operations is minimal and, in management's opinion, is sufficiently covered by insurance policies.



**REQUIRED SUPPLEMENTARY INFORMATION**

DETROIT/WAYNE COUNTY PORT AUTHORITY

SCHEDULES OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL - OPERATING FUND (UNAUDITED)

For the Years Ended September 30, 2005 and 2004

	2005				2004			
	Original Budget	Final Budget	Actual	Positive (Negative) Variance with Final Budget	Original Budget	Final Budget	Actual	Positive (Negative) Variance with Final Budget
<b>Revenue:</b>								
Contracts and grants	\$ 1,065,000	\$ 1,065,000	\$ 1,698,278	\$ 633,278	\$ 3,765,000	\$ 3,765,000	\$ 3,878,904	\$ 113,904
Reimbursement of bond issuance costs			400,000	400,000				-0-
Administrative revenue	184,905	184,905	184,905	-0-	176,856	176,856	176,856	-0-
Rental income	93,308	93,308	78,210	(15,098)	88,865	88,865	83,635	(5,230)
Interest income	1,977	1,977	10,320	8,343	2,374	2,374	8,196	5,822
Miscellaneous income			35,000	35,000				-0-
<b>Total Revenue</b>	<b>1,345,190</b>	<b>1,345,190</b>	<b>2,406,713</b>	<b>1,061,523</b>	<b>4,033,095</b>	<b>4,033,095</b>	<b>4,147,591</b>	<b>114,496</b>
<b>Expenditures:</b>								
Current:								
Salaries, wages, and employee benefits	843,458	843,458	767,315	76,143	808,814	808,814	777,313	31,501
Contractual and professional services	147,500	147,500	261,841	(114,341)	142,500	142,500	125,317	17,183
Facility operations and maintenance	151,037	151,037	180,198	(29,161)	168,086	168,086	172,817	(4,731)
Office expenses	96,980	96,980	84,217	12,763	107,480	107,480	84,403	23,077
Site reclamation and redevelopment			798,167	(798,167)			158,169	(158,169)
Travel and automotive expenses	45,660	45,660	90,466	(44,806)	45,660	45,660	85,503	(39,843)
Conferences, dues, and subscriptions	21,255	21,255	81,632	(60,377)	21,255	21,255	41,592	(20,337)
Marketing and promotion	39,300	39,300	64,621	(25,321)	39,300	39,300	116,231	(76,931)
Interest expense			34,701	(34,701)				-0-
Capital outlay			2,107,512	(2,107,512)	2,700,000	2,700,000	2,700,607	(607)
<b>Total Expenditures</b>	<b>1,345,190</b>	<b>1,345,190</b>	<b>4,470,670</b>	<b>(3,125,480)</b>	<b>4,033,095</b>	<b>4,033,095</b>	<b>4,261,952</b>	<b>(228,857)</b>
<b>Excess (Deficiency) of Revenue over Expenditures</b>	<b>-0-</b>	<b>-0-</b>	<b>(2,063,957)</b>	<b>(2,063,957)</b>	<b>-0-</b>	<b>-0-</b>	<b>(114,361)</b>	<b>(114,361)</b>
<b>Other Financing Sources:</b>								
Issuance of note			2,125,066	2,125,066				-0-
<b>Net Increase (Decrease) in Fund Balance</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 61,109</b>	<b>\$ 61,109</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ (114,361)</b>	<b>\$ (114,361)</b>

See note to schedule of revenue and expenditures - budget and actual - operating fund.

DETROIT/WAYNE COUNTY PORT AUTHORITY

**NOTE TO SCHEDULES OF REVENUE AND EXPENDITURES - BUDGET AND  
ACTUAL - OPERATING FUND (UNAUDITED)**

**For the Years Ended September 30, 2005 and 2004**

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**NOTE A - BUDGETS AND BUDGETARY ACCOUNTING**

The Detroit/Wayne County Port Authority (the "Authority") establishes a budget that is reflected in the financial statements for the operating fund. The budget is presented on the modified accrual basis of accounting.

Budgeted amounts are as presented to and approved by the Authority's Board of Directors. No amendments to the budget were made during the year. Appropriations are authorized by the Authority's management. Unexpended appropriations lapse at the end of the fiscal year.